



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

Washington State Fruit Commission

For the period April 1, 2013 through March 31, 2014

Published December 29, 2014

Report No. 1013301





Washington State Auditor Troy Kelley

December 29, 2014

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Washington State Fruit Commission's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Commission's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Washington State Fruit Commission April 1, 2013 through March 31, 2014

The results of our audit of the Washington State Fruit Commission are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Commission.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued a qualified opinion on the Commission's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.601	Market Access Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Commission did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Washington State Fruit Commission April 1, 2013 through March 31, 2014

2014-001 The Washington State Fruit Commission does not have adequate internal controls to ensure compliance with federal procurement requirements.

CFDA Number and Title:	10.601, Market Access Program
Federal Grantor Name:	U.S. Department of Agriculture Office of Foreign Agricultural Services
Federal Award/Contract Number:	10000T
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

In fiscal year 2014, the Commission spent \$1,396,837 in U.S. Department of Agriculture funding to promote Washington fruits in foreign markets.

Federal regulations for the Market Access Program require grantees to procure transactions in a manner providing full and open competition and retain documentation of the procurement efforts. For purchases over \$100,000, the Commission is required to procure by sealed bids or competitive proposals. When competitive proposals are used, the Commission is required to publicize and identify all evaluation factors and their relative importance.

The Commission contracted with four vendors over \$100,000 totaling to \$775,271. The audit identified the following:

- The Commission obtained informal quotes instead of procurement by sealed bids or competitive proposals for one vendor paid \$110,000.
- The Commission does not have adequate documentation to verify compliance for one vendor paid \$200,000.
- The Commission did not include any evaluation factors in requests for proposals for two contracts totaling to \$465,271.

For purchases over \$35,000, the Commission is required to obtain quotes from an adequate number of qualified sources. The Commission contracted with six vendors over \$35,000 totaling to \$384,258. The Commission does not have adequate documentation to verify compliance for one vendor paid \$35,850.

Cause of Condition

Employees' responsible for the program were not aware of the federal requirements pertaining to procurement nor was it monitored by the Commission's management. We consider this control deficiency to be a material weakness in internal controls.

Effect of Condition and Questioned Costs

Without proper controls, the Commission cannot ensure it obtained the best services at the most competitive price. We were able to verify that the purchases are allowable under the federal program, and as a result, we are not questioning these costs.

Recommendation

We recommend the Commission establish internal controls to ensure vendors in foreign markets are procured in accordance with federal requirements.

Commission's Response

The Commission recognizes the importance to know, understand, and follow the specific federal grant requirements as stated in 7 CFR 1485. The Commission has reviewed with staff the federal grant procurement requirements, specifically pertaining to the different value thresholds, and the proper documentation regarding the procurement process. Management will be reviewing their procurement policy to ensure that additional information regarding federal grant requirements is included in the process of procurement.

The Commission thanks the State Auditor's Office for their time and patience during this process.

Auditor's Remarks

We appreciate the steps the Commission is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

7 CFR section 1485.29 Contracting procedures, states in part:

(b) A MAP Participant shall comply with the procurement standards set forth below and in the applicable parts of this title when procuring goods and services and when engaging in construction to implement program agreements (e.g., 7 CFR Parts 3015, 3016, and 3019). For purposes of this subpart, the “small purchase threshold” referenced in 7 CFR part 3019 is the “simplified acquisition threshold” established by 41 U.S.C. 134.

(c) Each MAP Participant shall establish contracting procedures for contracts that are funded, in whole or in part, with MAP funds that are open, fair, and competitive.

(d) Each MAP Participant shall submit to CCC, for CCC approval, written contracting guidelines for contracts that are funded, in whole or in part, with MAP funds. CCC will notify all new and existing MAP Participants in writing in each Participant's annual approval letter and through the FAS web site as to applicable submission dates for and dates for approvals of contracting guidelines. CCC's approval of such contracting guidelines will remain in place until CCC retracts its approval in writing, or until new guidelines are approved that supersede them. Once approved by CCC, these contracting guidelines shall govern all of a Participant's MAP-funded contracting involving contracts with an annual value of \$35,000 or more. CCC may determine a different minimum value and announce that minimum value in writing to all MAP Participants via a MAP notice issued on the FAS Web site. The guidelines shall indicate the method for evaluating proposals received for all contract competitions, the method for monitoring and evaluating performance under contracts, and the method for initiating corrective action for unsatisfactory performance under contracts. The MAP Participant may modify and resubmit these

guidelines for re-approval at any time. In addition to the requirements set forth in the applicable parts of this title (e.g., 7 CFR Parts 3015, 306, 3019), these guidelines shall include, at a minimum, the following:

(1) Procedures for developing and publicizing requests for proposals, invitations for bids, and similar documents that solicit third party offers to provide goods or services. Solicitations for professional and technical services shall be based on clear and accurate descriptions of and requirements related to the services to be procured. Such procedures must include a conflict-of-interest provision that states that no employee, officer, board member, or agent thereof of the MAP Participant will participate in the review, selection, award or administration of a contract if a real or apparent conflict of interest would arise. Such a conflict would arise when an employee, official, board member, agent, or the employee's, officer's, board member's, agent's family, partners, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award. Procedures shall provide that officers, employees, board members, and agents thereof shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or subcontractors. Procedures shall also provide for disciplinary actions to be applied for violations of such standards by officers, employees, board members or agents thereof;

(2) Procedures for reviewing proposals, bids, or other offers to provide goods and services. Separate procedures shall be developed for various situations, including, but not limited to: solicitations for highly technical services; solicitations for services that are not common in a specific market; solicitations that yield receipt of three or more bids; solicitations that yield receipt of fewer than three bids;

(3) Requirements to conduct all contracting in an openly competitive manner. Individuals who develop or draft specifications, requirements, statements of work, invitations for bids, and/or requests for proposals for procurement of any goods or services, and such individuals'

families or partners, or an organization that employs or is about to employ any of the aforementioned, shall be excluded from competition for such procurement. MAP Participants' written contracting guidelines may detail special situations where the prohibitions in this subparagraph do not apply, such as in situations involving highly specialized technical services or situations where the services are not commonly offered in a specific market;

(4) Requirements to perform and document in the procurement files some form of price or cost analysis, such as a comparison of price quotations to market prices or other price indicia, to determine the reasonableness of the offered prices in connection with every procurement action that is governed by the contracting guidelines;

(5) Requirements to conduct an appropriate form of competition every 3 years on all multi-year contracts that are governed by the contracting guidelines. However, contracts for in-country representation are not required to be re-competed after the initial award. Instead, the performance of in-country representation must be evaluated and documented by the MAP Participant annually to ensure that the terms of the contract are being met in a satisfactory manner; and

(6) Requirements for written contracts with each provider of goods, services, or construction work. Such contracts shall require such providers to maintain adequate records to account for funds provided to them by the MAP Participant.

7 CFR section 3016.36 Procurement, states in part,

(c) Competition.

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §3016.36. Some of the situations considered to be restrictive of competition include but are not limited to:

(i) Placing unreasonable requirements on firms in order for them to qualify to do business,

- (ii) Requiring unnecessary experience and excessive bonding,
- (iii) Noncompetitive pricing practices between firms or between affiliated companies,
- (iv) Noncompetitive awards to consultants that are on retainer contracts,
- (v) Organizational conflicts of interest,
- (vi) Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance of other relevant requirements of the procurement, and
- (vii) Any arbitrary action in the procurement process.

(2) Grantees and subgrantees will conduct procurements in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference. Nothing in this section preempts State licensing laws. When contracting for architectural and engineering (A/E) services, geographic location may be a selection criteria provided its application leaves an appropriate number of qualified firms, given the nature and size of the project, to compete for the contract.

(3) Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations:

- (i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured, and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product

specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a “brand name or equal” description may be used as a means to define the performance or other salient requirements of a procurement. The specific features of the named brand which must be met by offerors shall be clearly stated; and

- (ii) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

(4) Grantees and subgrantees will ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, grantees and subgrantees will not preclude potential bidders from qualifying during the solicitation period.

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in §3016.36(d)(2)(i) apply.

- (i) In order for sealed bidding to be feasible, the following conditions should be present:

- (A) A complete, adequate, and realistic specification or purchase description is available;
 - (B) Two or more responsible bidders are willing and able to compete effectively and for the business; and
 - (C) The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.
- (ii) If sealed bids are used, the following requirements apply:
- (A) The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids;
 - (B) The invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond;
 - (C) All bids will be publicly opened at the time and place prescribed in the invitation for bids;
 - (D) A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs shall be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
 - (E) Any or all bids may be rejected if there is a sound documented reason.

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

- (i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;
- (ii) Proposals will be solicited from an adequate number of qualified sources;
- (iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;
- (iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and
- (v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

- (a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1)

significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Washington State Fruit Commission. The State Auditor's Office has reviewed the status as presented by the Commission.

Audit Period: April 1, 2012 - March 31, 2013	Report Ref. No.: 43643	Finding Ref. No.: 1	CFDA Number(s): 10.601
Federal Program Name and Granting Agency: Market Access Program, U.S. Department of Agriculture Office of Foreign Agricultural Service		Pass-Through Agency Name: NA	
Finding Caption: The Washington State Fruit Commission does not have adequate internal controls to ensure compliance with federal suspension and debarment and procurement requirements.			
Background: In fiscal year 2013, the Commission spent \$1,475,691 in U.S. Department of Agriculture funding to promote Washington fruits in foreign markets. Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the Commission must ensure the vendor or subrecipient is not suspended or debarred. Federal regulations for the Market Access Program also require grantees to procure transactions in a manner providing full and open competition and retain documentation of the procurement efforts. The Commission competitively procures the services of marketing representatives for each region. The marketing representative is contracted to implement the program within a specific region, which includes promoting Washington fruit through wholesalers, retailers and other promotion companies. The marketing representative selects retailers and promotion companies to use in each region. By contract, the marketing representatives are responsible for managing vendor relationships within his/her region. Instead of working through the marketing representatives for paying these vendors during fiscal year 2013, the Commission paid the vendors directly. As the marketing representative selected these vendors, the Commission did not go through the normal procurement process or check for suspension and debarment.			

Status of Corrective Action: (check one)☐ Fully Corrected☒ Partially Corrected☐ No Corrective Action Taken☐ Finding is considered no longer valid**Corrective Action Taken:**

The Commission has discussed with staff and arrangements have been made to either pay the vendors utilized in foreign markets directly through the marketing representatives or procure the vendor directly through competitive bid (if other vendors are available); write a contract which includes suspension and debarment language; or check for suspension and debarment through the federal suspension and debarment SAM website.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**State of Washington
Washington State Fruit Commission
April 1, 2013 through March 31, 2014**

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington State Fruit Commission, Yakima County, Washington, as of and for the years ended March 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 19, 2014. As discussed in Note 11 to the financial statements, during the year ended March 31, 2014, the Commission implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

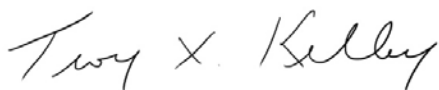
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 19, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Washington State Fruit Commission
April 1, 2013 through March 31, 2014**

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Washington State Fruit Commission, Yakima County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2014. The Commission's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Commission's compliance.

Basis for Qualified Opinion on Market Access Program

As described in Finding 2014-001 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the Commission did not comply with requirements regarding its Market Access Program for federal procurement. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements applicable to the program.

Qualified Opinion on Market Access Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Market Access Program for the year ended March 31, 2014.

Commission's Response to Findings

The Commission's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness

of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 19, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington State Fruit Commission April 1, 2013 through March 31, 2014

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington State Fruit Commission, Yakima County, Washington, as of and for the years ended March 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed on page 27.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Fruit Commission, as of March 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 11 to the financial statements, in 2014, the Commission adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

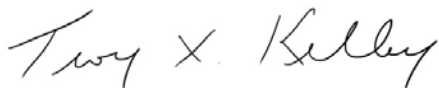
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 19, 2014

FINANCIAL SECTION

Washington State Fruit Commission April 1, 2013 through March 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2014 and 2013

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013

Comparative Statement of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

Management's Discussion and Analysis

As management of the Washington State Fruit Commission (Commission), we offer readers of the Commission's basic financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years ending March 31, 2013 and March 31, 2014. The intent of this discussion and analysis is to look at the Commission's performance as a whole. Readers should also review the notes to the financial statements and the basic financial statements to enhance their understanding of the Commission's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is required and has been presented in the MD&A.

Financial Highlights

- Total FY 2014 Revenues for the Commission are \$6,644,874 of which assessment revenues generated \$2,401,187, the *Good Fruit Grower* Publication Revenue generated \$1,522,058, and Partner Income generated \$538,777 with governmental grants, administrative services income, investments, other income, completing the balance. The FY 2014 revenue is a decrease of \$1,776,204 over FY 2013 \$8,421,078 mainly due to the reduced size of the 2013 cherry crop at approximately 139,788 tons compared to the 2012 cherry crop of approximately 220,944 tons. The reduction in the 2013 crop size is due to inclement weather that damaged much of the Chelan and early Bing varieties in Washington and Oregon.
- Total FY 2014 spending for the Commission of approximately \$7,160,582 consists mainly of Promotion expenses at \$3,964,112 and Salary and Benefit expenses at \$1,775,888; compared to FY 2013, spending for the Commission of approximately \$7,357,169 consisting mainly of \$4,328,408 toward Promotion programs and \$1,581,739 toward Salary and Benefits. Although the 2013 crop was down significantly from prior year, many promotion programs both domestically and internationally, were in place before the final outcome of the reduced tonnage was known. Although salaries and benefits in FY 2014 were up over prior year due to the reinstatement of 3% state freeze, COLA increases, and overlap of *GFG* managers and WSFC accounting assistants during retirement transitions, overall, FY 2014 expenses resulted in a decrease over FY 2013 by approximately \$196,587.
- Total FY 2013 spending for capital purchases was \$72,084; down \$51,513 from FY 2013 \$123,597. Of the \$72,084 FY 2014 capital purchases, \$26,862 was attributed to the purchase of a vehicle; \$13,953 for a first floor office remodel in the Northwest Horticultural Council offices; \$10,416 for a new copier; \$8,656 for a

domain server; with the balance spent on staff computers and miscellaneous equipment.

- The Commission's long-term debt for the building bond principal balance at March 31, 2014 is \$525,000. Balance at March 31, 2013 was \$665,000. During FY 2014, the Washington Office of the State Treasurer refunded \$665,000 of the series R-2004A bonds and issued a new debt under series R-2014A totaling \$600,000.
- The Commission's total FY 2014 net position of \$4,150,721 decreased the FY 2013 net position of \$4,666,429 by \$515,708.
- The Commission continues to operate without the need for operating debt borrowings during the current fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of two components: 1) comparative financial statements, and 2) notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are reported as proprietary funds.

Proprietary funds – All of the Commission's services are reported in enterprise funds. They account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. They also are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The focus of proprietary funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

The statement of net position presents information on the Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. The statement of net position can be found on page 9 of this report.

The statement of revenues and expenses combined with the statement of changes in net position presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The statement of revenues, expenses and changes in net position can be found on page 10 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12 through 24 of this report.

Much of the Commission's revenues are derived from assessments collected on stone fruit crops, federal grant funding, and revenue from advertising sales. Future funding resources may be significantly affected due to weather and economic conditions.

Financial Analysis

The Commission's net position was \$4,150,721 at March 31, 2014 which is a decrease of \$515,708 over FY 2013. Of this amount, \$3,175,828 was unrestricted. The largest portion of the Commission's net position (\$4,150,721) reflects its cash, investments, and fixed assets.

Due to the inclement weather resulting in a smaller 2014 cherry crop and ultimately assessment collections, the overall financial position resulted in a decrease of \$515,708. The Commission uses these funds to provide promotion, and educational programs on behalf of the tree fruit industry participants. Our analysis below focuses on the net position and the change in net position of the Commission as a whole.

Table 1
Washington State Fruit Commission, Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current & Other Assets	3,746,097	4,569,304	3,338,038
Capital Assets (Net)	<u>1,574,893</u>	<u>1,591,579</u>	<u>1,547,240</u>
TOTAL ASSETS	5,320,990	6,160,882	4,885,278
Deferred Outflows of Resources			
Deferred Revenues	-	-	-
TOTAL DEFERRED OUTFLOWS of RESOURCES	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS of RESOURCES	<u>5,320,990</u>	<u>6,160,882</u>	<u>4,885,278</u>
Current Liabilities	586,976	829,453	542,757
Noncurrent Liabilities	<u>525,000</u>	<u>665,000</u>	<u>740,000</u>
TOTAL LIABILITIES	1,111,976	1,494,453	1,282,757
Deferred Inflows of Resources:			
Deferred Bond Refunding	<u>58,293</u>	-	-
TOTAL DEFERRED INFLOWS of RESOURCES	58,293	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS of RESOURCES	1,170,269	1,494,453	1,282,757
Invested in Capital Assets, Net of Related Debt	974,893	851,579	732,240
Unrestricted Net Assets	<u>3,175,828</u>	<u>3,814,850</u>	<u>2,870,281</u>
TOTAL NET POSITION	4,150,721	4,666,429	3,602,520
TOTAL LIABILITIES & NET POSITION	<u>5,320,990</u>	<u>6,160,882</u>	<u>4,885,278</u>

Table 2
Washington State Fruit Commission, Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Income:			
Assessment Revenue	2,401,187	3,929,023	2,980,573
Good Fruit Grower Publication Revenue	1,522,058	1,461,595	1,399,505
Partner Income	<u>538,777</u>	<u>720,119</u>	<u>530,900</u>
TOTAL OPERATING INCOME	4,462,023	6,110,737	4,910,979
Operating Expenses:			
Promotion Expenses	3,964,112	4,328,408	3,707,269
Production Expenses	498,061	492,965	439,117
Employee Salaries	1,359,544	1,186,696	1,126,286
Employee Benefits	416,344	395,044	373,613
Professional Services	81,900	44,769	8,007
Industry Dues & Memberships	70,034	75,000	73,123
Office & Board Expenses	27,469	20,528	32,572
Water	4,532	4,169	3,097
Electricity	13,944	14,277	13,280
Gas	4,776	5,650	4,661
Other Utilities	7,551	6,939	7,127
Materials & Other Maintenance Costs	17,872	19,500	21,990
Insurance Premiums	14,293	13,695	12,068
Taxes	19,396	18,140	20,874
Depreciation Expense	<u>88,771</u>	<u>79,258</u>	<u>87,982</u>
TOTAL OPERATING EXPENSES	6,588,601	6,705,038	5,931,065
NET OPERATING INCOME OR (LOSS)	(2,126,578)	(594,301)	(1,020,087)
Nonoperating Revenues (Expenses):			
Gain/Loss of Sale of Fixed Assets	8,150	7,000	9,305
Governmental Operating Grants	1,472,636	1,622,426	1,269,192
Administrative Services Income	511,460	497,324	493,416
Administrative Services Expense	(466,817)	(463,320)	(453,611)
Industry Contributions	(89,066)	(150,311)	(76,812)
Rent Income	117,243	109,506	114,057
Other Income	70,000	70,000	70,000
Interest Income	3,361	4,085	5,098
Interest Expense	<u>(16,099)</u>	<u>(38,500)</u>	<u>(41,500)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	1,610,870	1,658,210	1,389,145
NET INCOME (LOSS)	(515,708)	1,063,909	369,059
Net Position (Beginning April 1)	4,666,429	3,602,520	3,233,462
NET POSITION, MARCH 31	<u>4,150,721</u>	<u>4,666,429</u>	<u>3,602,520</u>

Capital Assets and Long-Term Debt

CAPITAL ASSETS

The Commission's investment in capital assets as of March 31, 2014 amounts to \$1,574,893 (net of accumulated depreciation.) This investment in capital assets includes land, buildings, building improvements and equipment. Compared to the FY 2013 investment in capital assets (net of accumulated depreciation) of \$1,591,579, the total decrease in the Commission's investment in capital assets for the current fiscal year was \$16,686 or 1%.

Major capital asset events during the current fiscal year included the following:

Office Equipment	Office Remodel	Automobiles
Capital Assets at Year-end		
		<u>March 31, 2014</u>
Land		\$ 174,240
Buildings		1,848,386
Leasehold Improvements		216,314
Furniture and Equipment		<u>405,434</u>
		<u>\$ 2,644,374</u>

Refer to financial notes for further information.

LONG TERM DEBT

The Commission's long-term debt for the building bond principal balance at March 31, 2014 is \$525,000. Balance at March 31, 2013 was \$665,000. During FY 2014, the Washington Office of the State Treasurer refunded \$665,000 of the series R-2004A bonds and issued a new debt under series R-2014A totaling \$600,000. Refer to financial notes for further information.

Economic Factors and Next Year's Budgets and Rates

The Commission is primarily dependent upon stone fruit assessment of tonnage for the funding of promotional programs, educational programs, and business operations. Therefore, the Commission is affected by the crop production. The Commission started FY 2015 with a decreased net position. Early crop estimates indicate a 2014 crop close to the industry average. Therefore, the budget for 2014-2015 has been prepared and approved by the Commission. The Commission's 2014 assessment rates and crop predictions are budgeted as followed:

<u>Fruit*</u>	<u>Assessment Rate</u>	<u>Budgeted Tonnage</u>	<u>Revenue</u>
Cherries	\$18.00/ton	200,000**	\$3,600,000
Apricots	\$12.00/ton	5,000	\$60,000
Peaches	\$12.00/ton	8,000	\$96,000
Nectarines	\$12.00/ton	8,500	\$102,000
Prunes/Plums	\$12.00/ton	2,700	\$32,400

*Includes fresh fruit only.

**Includes 5 state partner tonnage

Additional revenue sources include the *Good Fruit Grower* publication. The recent economic conditions both nationally and world-wide have put a stronger spotlight on a publication's ability to generate advertising revenue. Content remains king in terms of attracting and retaining advertising revenue. Given the high, existing levels in usage of digital sources of information (websites, Internet search, emails); the *Good Fruit Grower* continues to expand its digital presence thus providing further avenues of advertising exposure. Due to the industry specific readership that the *Good Fruit Grower* publication reaches, current advertisers have indicated continued support through advertising channels.

Washington State Fruit Commission
COMPARATIVE STATEMENT OF NET POSITION
 March 31, 2013 and March 31, 2014

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash-Unrestricted	2,226,107	3,025,566
Receivable, net	209,750	241,658
Investments-Unrestricted	1,257,830	1,256,042
Prepaid Expense & Other Assets	49,399	41,683
Inventories-Supplies	<u>3,011</u>	<u>4,355</u>
TOTAL CURRENT ASSETS	3,746,097	4,569,304
Noncurrent Assets:		
Land	174,240	174,240
Buildings	1,848,386	1,848,386
Furniture & Equipment	405,434	379,706
Leasehold Improvements	216,314	202,360
Accumulated Depreciation	<u>(1,069,482)</u>	<u>(1,013,113)</u>
TOTAL NONCURRENT ASSETS	1,574,893	1,591,579
Deferred Outflows of Resources:		
Deferred Revenues	<u>-</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS of RESOURCES	-	-
TOTAL ASSETS	<u>5,320,990</u>	<u>6,160,882</u>
Current Liabilities:		
Accounts Payable	170,322	165,840
Assessments Payable	130,585	370,467
Accrued Payroll Taxes & Benefits Payable	89,887	86,671
Accrued Vacation Liability	119,809	126,625
Accrued Expenses	-	3,558
Accrued Income	-	-
Accrued Business Tax Payable	1,373	1,293
Deferred Revenues	-	-
Current Portion of Long Term Debt	<u>75,000</u>	<u>75,000</u>
TOTAL CURRENT LIABILITIES	586,976	829,453
Noncurrent Liabilities:		
Bonds Payable	<u>525,000</u>	<u>665,000</u>
TOTAL NONCURRENT LIABILITIES	525,000	665,000
Deferred Inflows of Resources:		
Deferred Bond Refunding	<u>58,293</u>	<u>-</u>
TOTAL DEFERRED INFLOWS of RESOURCES	58,293	-
TOTAL LIABILITIES	<u>1,170,269</u>	<u>1,494,453</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	974,893	851,579
Unrestricted Net Assets	<u>3,175,828</u>	<u>3,814,850</u>
TOTAL NET POSITION	<u>4,150,721</u>	<u>4,666,429</u>
TOTAL LIABILITIES & NET POSITION	<u>5,320,990</u>	<u>6,160,882</u>

Washington State Fruit Commission
**COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION**
For the Years Ending March 31, 2013 and March 31, 2014

	<u>2014</u>	<u>2013</u>
Operating Income:		
Assessment Revenue	\$2,401,187	\$3,929,023
Goodfruit Grower Publication Revenue	1,522,058	1,461,595
Partner Income	<u>538,777</u>	<u>720,119</u>
TOTAL OPERATING INCOME	\$4,462,023	\$6,110,737
Operating Expenses:		
Promotion Expenses	\$3,964,112	\$4,328,408
Production Expenses	498,061	492,965
Employee Salaries	1,359,544	1,186,696
Employee Benefits	416,344	395,044
Professional Services	81,900	44,769
Industry Dues & Memberships	70,034	75,000
Office & Board Expenses	27,470	20,528
Water	4,532	4,169
Electricity	13,944	14,277
Gas	4,776	5,650
Other Utilities	7,551	6,939
Materials & Other Maintenance Costs	17,872	19,500
Insurance Premiums	14,293	13,695
Taxes	19,396	18,140
Depreciation Expense	<u>88,771</u>	<u>79,258</u>
TOTAL OPERATING EXPENSES	\$6,588,601	\$6,705,038
NET OPERATING INCOME OR (LOSS)	\$(2,126,578)	\$(594,301)
Nonoperating Revenues (Expenses):		
Gain/Loss of Sale of Fixed Assets	\$ 8,150	\$ 7,000
Governmental Operating Grants	1,472,636	1,622,426
Administrative Services Income	511,460	497,324
Administrative Services Expense	(466,817)	(463,320)
Industry Contributions	(89,066)	(150,311)
Rent Income	117,243	109,506
Other Income	70,000	70,000
Interest Income	3,361	4,085
Interest Expense	<u>(16,099)</u>	<u>(38,500)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	\$1,610,870	\$1,658,210
NET INCOME (LOSS)	\$(515,708)	\$1,063,909
Net Position (Beginning April 1)	\$4,666,429	\$3,602,520
NET POSITION, MARCH 31	<u>\$4,150,721</u>	<u>\$4,666,429</u>

The accompanying notes are an integral part of these financial statements.

WASHINGTON STATE FRUIT COMMISSION
Comparative Statements of Cash Flows
Years Ending March 31, 2013 and 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 4,493,930	\$6,053,210
Cash payments to suppliers	(4,972,791)	(4,706,950)
Cash payments to employees for services	(1,775,888)	(1,581,739)
Other	-	-
<i>Net cash provided by operating activities</i>	<u>\$ (2,254,749)</u>	<u>\$ (235,479)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Administrative services income	\$ 511,460	\$ 497,324
Administrative services expense	(466,817)	(463,320)
Operating grant	1,472,636	1,622,425
Rental income	117,243	109,506
Other income	70,000	70,000
Proceeds from sale of fixed assets	8,150	7,000
Other expenses	-	-
<i>Net cash provided by non-capital financing activities</i>	<u>\$ 1,712,673</u>	<u>\$ 1,842,935</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Industry contributions	\$ (89,066)	\$ (150,311)
Deferred refunding of debt	58,293	-
Principal paid on debt issues	(140,000)	(75,000)
Fixed assets (Net)	(72,085)	(123,597)
Interest paid on various contracts and debt issues	(16,099)	(38,500)
<i>Net cash (used) for capital and related financing activities</i>	<u>\$ (258,957)</u>	<u>\$ (387,408)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	\$ 3,361	\$ 4,085
Proceeds from sale and maturities on investments securities	-	-
Purchases of investments	(1,788)	(503,301)
<i>Net cash used for investing activities</i>	<u>\$ 1,573</u>	<u>\$ (499,216)</u>
<i>Net increase/(decrease) in cash and cash equivalents</i>	<u>\$ (799,459)</u>	<u>\$ 720,832</u>
Cash and cash equivalents at beginning of year	<u>\$ 3,025,566</u>	<u>\$ 2,304,734</u>
Cash and cash equivalents at end of year	<u>\$ 2,226,107</u>	<u>\$ 3,025,566</u>
Reconciliation of Operating Income(Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$(2 126,578)	\$(594,301)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	\$ 88 771	\$ 79,258
Change in assets and liabilities:		
Receivables, net	\$ 31 908	\$ (57,528)
Prepaid Expenses	(7,716)	21,944
Inventories	1,344	28,451
Accounts and other payables	(238,920)	286,998
Accrued expenses	(3,558)	(303)
Net Cash provided by operating activities	<u><u>\$ (2,254,749)</u></u>	<u><u>\$ (235,479)</u></u>

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The Washington State Fruit Commission, (the Commission), a corporation and Washington State Agency defined under RCW15.28, was created in order to develop and promote Washington's soft tree fruits as part of an existing comprehensive regulatory scheme, vital to the continued economic well-being of the citizens of this state and their general welfare that its soft tree fruits be properly promoted by (a) enabling the soft tree fruit industry to help themselves in establishing orderly, fair, sound, efficient, and unhampered cooperative marketing, grading, and standardizing of soft tree fruits they produce; and (b) working to stabilize the soft tree fruit industry by increasing consumption of soft tree fruits within the state, the nation, and internationally.

The commission is governed by a board composed of seventeen voting members, as follows: Ten producers, four dealers, and two processors, and the director of WSDA, or an authorized representative. A majority of the voting members constitute a quorum for the transaction of any business.

An annual assessment is levied upon all commercial soft tree fruits grown in the state or packed as Washington soft tree fruit. The commission's comparative financial statements include the financial position and results of operations.

B. Basis of Accounting

The commission uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Grant revenues are recognized when received.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's are assessments levied on all commercial tree fruit produced in

Washington State or held out as being produced in Washington State for fresh or processing use. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Budgets

The commission is not required to prepare a budget.

D. Assets, Liabilities and Fund Balance

1. Cash and Cash Equivalents

The commission considers cash and equivalents to include all checking, savings, and municipal investments accounts with no maturity dates. It is the commission's policy to invest all temporary cash surpluses. The amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is pro-rated to the various funds.

2. Temporary Investments - See Note 2

3. Receivables

Receivables consist of amounts due from assessments, advertising in the *Good Fruit Grower* magazine, interest, and administrative and accounting services provided to other industry members relating to the tree fruit industry.

4. Inventories

The inventory consists of Good Fruit Grower book inventory and is valued by the cost when the books are purchased and/or printed.

5. Capital Assets and Depreciation - See Note 3

6. Accumulated Unpaid Employee Leave Benefits

The commission tracks all accumulated unused vacation leave. In proprietary funds, the expenses are realized when paid. Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 240 hours (30 days) and is not payable upon resignation, retirement or death.

7. Accrued Liabilities – See Note 4 and Note 5

These accounts consist of accrued wages and accrued employee benefits.

8. Long-Term Debt - See Note 6

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the commission are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions.

The commission's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protections Commission (PDPC). The bank balances for year end 2014 was 3,500,902, the book balance for year end 2014 was \$3,483,787 with a difference of \$17,115 due to outstanding deposits and checks.

The commission's investments are categorized to give an indication of the risk assumed at year-end. The following summary shows the commission's investments at year-end. Investments are insured, registered or held by the commission or its agent in the commission's name.

Investment Type	3/31/14 Carrying	3/31/14 Market	3/31/13 Carrying	3/31/13 Market
CD's	\$1,257,830	\$1,257,830	\$1,256,042	\$1,256,042

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

A. General Policies

All capital assets in excess of \$1,000 are capitalized and depreciated. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred.

B. Proprietary Fund Capital Assets

The Commission's investment in capital assets as of March 31, 2014 amounts to \$1,574,893 (net of accumulated depreciation). This is a decrease of \$16,686, or 1%, from capital assets consisting of \$1,591,579 (net of accumulated depreciation) at March 31, 2013.

Capital assets of proprietary funds are capitalized in their respective balance sheets and are recognized at historical cost or estimated historical cost when purchased or constructed.

Capital assets of proprietary funds are depreciated using the straight-line method over the useful life of the asset as follows:

	<u>Years</u>		<u>Years</u>
Computers	4	Improvements	15
Vehicles	5	Buildings	50
Equipment	5		

A summary of changes in capital assets are represented in the following table:

CAPITAL ASSETS AND DEPRECIATION

Business Type Activities	Beginning Balance 03/31/12	Increases	Decreases	Balance 3/31/13	Increases	Decreases	Ending Balance 3/31/14
Capital Assets, not being depreciated:							
Land	174,240	-	-	174,240	-	-	174,240
Total Capital Assets, not being depreciated:	174,240	-	-	174,240	-	-	174,240
Capital Assets, being depreciated:							
Building	1,848,386	-	-	1,848,386	-	-	1,848,386
Leasehold Improvements	106,276	96,085	-	202,361	13,953	-	216,314
Furniture and Equipment	376,667	27,512	24,474	379,705	58,131	32,402	405,434
Total Capital Assets, being depreciated:	2,331,329	123,597	24,474	2,430,452	72,084	32,402	2,470,134
Less accumulated depreciation for:							
Building	610,881	36,915	-	647,796	36,968	-	684,764
Leasehold Improvements	65,839	6,234	-	72,073	12,967	-	85,040
Furniture and Equipment	281,610	35,752	24,117	293,245	38,776	32,342	299,678
Total accumulated depreciation	958,329	78,901	24,117	1,013,113	88,711	32,342	1,069,482
Total capital assets, being depreciated, net	1,373,000	44,696	357	1,417,339	(16,627)	60	1,400,652
Business Type Activities capital assets, net	1,547,240	44,696	357	1,591,579	(16,627)	60	1,574,892

NOTE 4 - PENSION PLANS

Substantially all of the Commission's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plan 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost sharing multiple employer retirement system comprised of three separate plans for membership purposes; Plan 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employer contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon results of investment activities. Members may elect to self-direct the investment of their

contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012¹:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent. Two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of March 31, 2014, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%	9.21%**
Employee	6.00%	4.92%	***

- * The employer rates include the employer administrative expense fee currently set at 0.18%.
- * Plan 3 defined benefit portion only.
- * Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Commission and the employees made the required contributions. The Commission's required contributions for the years ending March 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$12,659	\$92,506	\$34,793
2013	\$9,541	\$67,405	\$25,308

NOTE 5 - DEFERRED COMPENSATION PLAN

The Commission offers its employees, through the Washington State Retirement System, Deferred Compensation Program (DCP), a supplemental retirement savings program (an IRC Section 457 plan). The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 6 – LONG TERM DEBT

In 1995, a \$1,510,000 State of Washington General Obligation Bond, Series 1995C, was issued on behalf of the commission for the purpose of providing funds to finance a facility for the State's Fruit Commission, located at 105 S. 18th Street, Yakima, WA 98901.

In 2003, Series 1995C was rescheduled into two separate bond schedules (Series 1995C & Series R2004A). In 2013, Series R2004A was rescheduled into a new bond schedule (Series 2014A). Series 2014A is secured by an unconditional pledge of the full faith and credit of the State. Under provision of Article VIII of the State Constitution, as amended, the Legislature is obligated to provide by appropriation for the payment of the principal of and interest on the Bonds from general State revenues.

These Bonds are excluded from the Statutory Debt Limitation.

The long-term debt for this bond is due in biannual payments with maturity in the year 2020. During FY 2014, the Washington Office of the State Treasurer refunded \$665,000 of the series R-2004A bonds and issued a new debt under series R-2014A totaling \$600,000. The rescheduling of the bond Series 2014A resulted with a savings of \$67,261 which will be amortized over the remaining life of the bond. The Commission's bond principal balance at March 31, 2014 is \$600,000. The bond principal balance at March 31, 2013 is \$740,000.

The Commission's deferred bond refunding balance at March 31, 2014 is \$58,293; the balance at March 31, 2013 is \$0. The total payment for 2013 is \$156,099 consisting of \$140,000 for principal and \$16,099 for reissuance of bond and interest. The annual requirements to amortize outstanding debt, including interest, are as follows:

	Bond Principal	Bond Interest	Bond Principal Balance
Balance at 2014	\$ -	\$ -	\$600,000
2015	\$ 75,000	\$ 25,500	\$525,000
2016	\$ 75,000	\$ 23,625	\$450,000
2017	\$ 80,000	\$ 20,500	\$370,000
2018	\$ 85,000	\$ 16,375	\$285,000
2019 - 2021	\$ 285,000	\$ 21,875	\$ -
Total	\$ 600,000	\$ 107,875	

Changes in the Washington State Fruit Commission's long-term liabilities during the years ending March 31, 2014 and 2013 are summarized below.

	Balance at March 31, 2012	Increase	Decrease	Balance at March 31, 2013	Increase	Decrease	Balance at March 31, 2014	Amounts Due within One Year
2004A	\$815,000	\$0	\$75,000	\$740,000	\$0	\$740,000	\$0	\$0
2014A	\$0	\$0	\$0	\$0	\$600,000	\$0	\$600,000	\$75,000
Compensated AbsenceS	\$109,696	\$16,929	\$0	\$126,625	\$0	\$6,816	\$119,809	\$119,809
TOTALS	\$924,696	\$16,929	\$75,000	\$866,625	\$600,000	\$746,816	\$719,809	\$194,809

NOTE 7 - CONTINGENCIES AND LITIGATION

The commission has recorded in its financial statements all material liabilities.

NOTE 8 – RISKS

Although risk can never be eliminated, the Washington State Fruit Commission makes every effort to minimize risks by implementing internal controls and procedures, segregating duties, and procuring adequate insurance coverage.

The Washington State Fruit Commission maintains applicable insurance coverage through a self procured insured policy obtained through Conover Insurance and a policy obtained through the Washington State Liability Self Insurance Program.

The Washington State Self-Insurance policy provides coverage up to \$10 million with no deductible for general and auto liability while the self procured policy through Conover provides coverage up to \$2 million aggregate for general liability with a \$1 million per occurrence general liability. The Conover policy also includes \$1 million in coverage for auto liability with a \$3 million umbrella that extends over the general liability and the auto liability.

Further, the Washington State Fruit Commission, per RCW 15.28.190, obtains up to \$50,000 in coverage for the State Public Officials Bond and also up to \$10 million in coverage for crime coverage.

As stated in RCW 15.28.250, for the purpose of securing collection of soft fruit assessments, the Washington State Department of Agriculture shall cease to provide inspection services under Chapter 15.17 RCW to any delinquent party until that party pays all delinquent assessments, interest, and penalties.

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

There were no changes made to the prior period balances.

NOTE 10 – SUBSEQUENT EVENTS

The State of Washington currently has at least 37,500 acres of sweet cherries in production. In optimal yield and harvest conditions, the state would harvest approximately 6 tons per acre which would roughly translate into 225,000 tons of cherries. Early estimation predicts a 2014 cherry crop close to 21 million box range or 210,000 tons. This will result in approximately \$3.78 million in fresh cherry assessment revenues for 2014.

Likewise conditions are expected for the remaining soft fruits and therefore budgets and programs have been prepared accordingly.

NOTE 11 – OTHER DISCLOSURES

- A. The Pacific Northwest Canned Pear Service (PNCPS), a non-profit organization was established in Washington State in February 1998 to increase acceptance and consumption of United States canned pears on behalf of the United States Canning Pear

- Growers in Washington and Oregon. The Commission appoints three Board of Director representatives from Washington and three Board of Director representatives from Oregon. Each appointed representatives shall act on behalf of the Commission. The Commission is not financially accountable for PNCPS.
- B. In FY 2014, the Commission implemented GASB 65 which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

WASHINGTON STATE FRUIT COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2014

SCHEDULE 16

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Footnote Reference
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Agriculture Foreign Agriculture Service	Market Access Program (MAP)	10.601	MAP	\$ -0-	\$1,396,837	\$1,396,837	1, 2
	Emerging Markets Program	10.603	EMP-9003	\$ -0-	\$ 63,299	\$ 63,299	1, 2
	Specialty Crop Block Grant Program	10.170	WSDA-K1263	<u>\$12,500</u>	<u>\$ -0-</u>	<u>\$ 12,500</u>	1, 2
			Subtotal	\$12,500	\$1,460,136	\$1,472,636	
Total Federal Awards Expended				\$12,500	\$1,460,136	\$1,472,636	

WASHINGTON STATE FRUIT COMMISSION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(AND STATE/LOCAL FINANCIAL ASSISTANCE)

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the commission's financial statements. The commission uses the accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the commission's portion, may be more than shown.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Washington State Fruit Commission April 1, 2013 through March 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Washington State Fruit Commission.

Finding ref number: 2014-001	Finding caption: The Washington State Fruit Commission does not have adequate internal controls to ensure compliance with federal procurement requirements.
Name, address, and telephone of auditee contact person: JoAnne Daniels, Treasurer/Controller 105 S. 18th Street, Suite 205 Yakima, WA 98901	
Corrective action the auditee plans to take in response to the finding: <p><i>During the audit period, the Commission spent \$1,396,837 in U.S. Department of Agriculture funding to promote northwest fruits in the foreign markets. It was noted that there were two areas of concerns pertaining to full and open competition, and adequate documentation of the procurement efforts.</i></p> <p><i>During the 2013 foreign promotion campaign, one of the vendors procured to run promotions relating to the Gary Locke Campaign in China was above the \$100,000 threshold and thus required not only full and open competition, but also required to be publicized with complete documentation including evaluation efforts. Further, the Commission failed to check for suspension and debarment on one vendor in a foreign country.</i></p> <p><i>The Commission recognizes the importance to know, understand, and follow the specific federal grant requirements as stated in 7 CFR 1485. The Commission has reviewed with staff the federal grant procurement requirements, specifically pertaining to the different value thresholds, and the proper documentation regarding the procurement process. Management will be reviewing their procurement policy to ensure that additional information regarding federal grant requirements is included in the process of procurement.</i></p> <p><i>The Commission thanks the State Auditor's Office for their time and patience during this process.</i></p>	
Anticipated date to complete the corrective action: Immediately	

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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